No. 16/24/DKEM Jakarta, 30th December 2014

CIRCULAR LETTER

To

ALL NON-BANK CORPORATIONS IN INDONESIA

Subject: The Implementation of Prudential Principles in Managing External Debt of Non-Bank Corporation

Pursuant to Bank Indonesia Regulation Number 16/21/PBI/2014 concerning The Implementation of Prudential Principles in Managing External Debt of Non-Bank Corporation (State Gazette of the Republic of Indonesia Number 394 of 2014, Supplement to the State Gazette of the Republic of Indonesia Number 5651), it is necessary to regulate the implementation of prudential principles to manage non-bank corporate external debt through a Bank Indonesia Circular Letter as follows:

I. PRUDENTIAL PRINCIPLES

A. Foreign Currency Assets

1. Foreign Currency Assets include:
    a. cash
    b. demand deposits
    c. savings accounts
    d. term deposits
    e. accounts receivable
    f. inventories
    g. marketable securities; and

h. receivables originating from forward, swap and/or option transactions;

in a foreign currency calculated based on the position at the end of the quarter.

2. Accounts receivable referred to in point 1.e is regulated as follows:
   a. Accounts receivable to Residents and non-Residents that will mature:
      1) up to 3 (three) months from the end of the quarter; and/or
      2) between 3 (three) and 6 (six) months from the end of the quarter.

      that are unconditional or irevocable and after deducting provisions for impairment.
   b. Accounts receivable to Residents as referred to in letter a is counted as a component of Foreign Currency Assets if the contract or agreement is signed prior to 1st July 2015.
   c. Accounts receivable to Residents with a contract or agreement signed subsequent to 1st July 2015 can be counted as a component of Foreign Currency Assets while related to a strategic infrastructure project approved by Bank Indonesia.
   d. The determination of strategic infrastructure projects referred to in letter c is evidenced by a reference from an authorised ministry or institution.
3. Inventory referred to in point 1.f is regulated as follows:
   a. Inventory includes inventory from exporters, namely corporations with a ratio of export revenue to total revenue of greater than 50% (fifty per cent) in the previous 1 (one) calendar year.
   b. The value of inventory is as follows:
      1) Finished goods ready for sale are calculated at 100% (one hundred percent);

2) Intermediate goods are calculated at 50% (fifty percent); and
3) Raw materials are calculated at 25% (twenty-five percent).

c. Inventory value does not include tools and equipment.

4. Marketable securities referred to in point 1.g are regulated as follows:
   a. Marketable securities are those that can readily be sold/converted for cash with an observable market price and includes securities in a category that are calculated by fair value through profit or loss. Marketable securities can be in the form of:
      1) Available for sale; or
      2) Hold to maturity with a residual maturity of up to 6 (six) months).
   b. Marketable securities include:
      1) debt instruments, such as government and/or foreign private bonds; and
      2) equity instruments, such as the shares of companies listed on foreign stock exchanges and Foreign Currency mutual funds.
5. Receivables originating from forward, swap and/or option transactions referred to in point 1.h that are calculated as Foreign Currency Assets are those pursuant to the Bank Indonesia regulation concerning hedging transactions.
6. Receivables originating from forward, swap and/or option transactions referred to in point 1.h that are calculated as Foreign Currency Assets are equal to notional amount that will mature:
   a. up to 3 (three) months from the end of the quarter; and/or
   b. between 3 (three) and 6 (six) months from the end of the quarter.

B. Foreign Currency Liabilities

1. Foreign Currency Liabilities are all Foreign Currency liabilities to Residents and Non-Residents, including those originating from forward, swap and/or option transactions that mature:

a. up to 3 (three) months from the end of the quarter; and/or
b. between 3 (three) and 6 (six) months from the end of the quarter.

2. Foreign Currency Liabilities that will mature but are in the rollover, revolving or refinancing process are not considered Foreign Currency Liabilities upon proof of adequate supporting documentation.

   Supporting documentation includes a notification from the creditor affirming the Foreign Currency Liability in question is in the rollover, revolving or refinancing process and a loan agreement with the relevant clauses.

C. Fulfilment of the Minimum Hedging Ratio

1. The negative balance threshold is equivalent to US$100,000.00 (one hundred thousand US dollars).

   Example 1:

   On 31st March 2016, PT AAA has current assets in a Foreign Currency totalling US$50,000.00, consisting of demand deposits totalling US$20,000.00 and term deposits totalling US$30,000.00. PT AAA also has current assets in the form of accounts receivable to PT IND in Jakarta (Resident) with a residual maturity of 3 (three) months amounting to US$10,000.00. The accounts receivable of PT AAA are based on a long-term sales and purchase agreement with PT IND signed on 1st December 2015.

   On the same date, PT AAA also has Foreign Currency Liabilities that will due up to 3 (three) months totalling US$100,000.00 and Foreign Currency Liabilities that will due between 3 (three) and 6 (six) months amounting to US$200,000.00.

   Therefore, the calculation for the minimum Hedging Ratio is as follows:

   – The minimum Hedging Ratio for maturity period of between 3 (three) and 6 (six) months.

PT AAA has a negative balance between Foreign Currency Assets and Foreign Currency Liabilities of US$50,000.000 – US$200,000.00 = -US$150,000.00.

Negative balance of PT AAA exceeds the threshold, so PT AAA is required to hedge 25% x US$150,000.00 = USD37,500.00.

That value must be hedged on the transaction date between 1st January 2016 and 31st March 2016 and the maturity date between 1st July 2016 and 30th September 2016.

– The minimum Hedging Ratio for maturity period of up to 3 (three) months.

As the accounts receivable of PT AAA is accounts receivable from a Resident with an agreement signed after 1st July 2015, the accounts receivable is not considered as a Foreign Currency Asset.

Therefore, PT AAA has a negative balance between Foreign Currency Assets and Foreign Currency Liabilities of US$50,000.00 – US$100,000.00 = -US$50,000.00.

As the negative balance between Foreign Currency Assets and Foreign Currency Liabilities is less than the threshold, PT AAA is not required to hedge in order to fulfil the minimum Hedging Ratio for a maturity period of up to 3 (three) months.

Example 2:

On 31st March 2016, PT ABC has current assets in a Foreign Currency amounting to US$50,000.00 in the form of demand deposits. PT ABC also has current assets in the form of accounts receivable to EXY Ltd. in Hong Kong (Non-Resident) with a residual maturity of up to 3 (three) months totalling US$10,000.00, with a residual maturity of between 3 (three) and 6 (six) months totalling

US$20,000.00 and with a residual maturity of greater than 6 (six) months totalling US$30,000.00.

On the same date, PT ABC also has Foreign Currency Liabilities with a residual maturity of up to 3 (three) months amounting to US$100,000.00 and Foreign Currency Liabilities with a residual maturity of between 3 (three) and 6 (six) months totalling US$200,000.00.

Therefore, the calculation for the minimum Hedging Ratio is as follows:

– The minimum Hedging Ratio for a maturity period of between 3 (three) and 6 (six) months.

  PT ABC has a negative balance between Foreign Currency Assets and Foreign Currency Liabilities of (US$50,000.00 + US$20,000.00) – US$200,000.00 = -US$130,000.00.

  Negative balance of PT ABC exceeds the threshold, so PT ABC is required to hedge 25% x US$130,000.00 = US$32,500.00.

  That value must be hedged on the transaction date between 1st January 2016 and 31st March 2016 and the maturity date between 1st July 2016 and 30th September 2016.

– The minimum Hedging Ratio for a maturity period of up to 3 (three) months.

  PT ABC has a negative balance between Foreign Currency Assets and Foreign Currency Liabilities of (US$50,000.00 + US$10,000.00) – USD100,000.00 = -US$40,000.00.

  As the negative balance between Foreign Currency Assets and Foreign Currency Liabilities is less than the threshold, PT ABC is not required to hedge in order to fulfil the minimum Hedging Ratio for a maturity period of up to 3 (three) months.

2. Hedging activity in the current reporting quarter is conducted to fulfil the minimum Hedging Ratio in that quarter. Therefore, receivable arises from that hedging transaction are not considered Foreign Currency Assets in the calculation of the negative balance between Foreign Currency Assets and Foreign Currency Liabilities in the current reporting quarter.

   Example:

   On 31st March 2016, PT BBB has current assets in a Foreign Currency totalling US$600,000.00, consisting of demand deposits totalling US$200,000.00 and term deposits totalling US$400,000.00 as well as a receivable form of a forward transaction to purchase USD totalling US$200,000.00 with a transaction date of 1st March 2016, taken to hedge against Foreign Currency Liabilities that mature on 15th May 2016.

   When calculating the minimum Hedging Ratio, the receivables from forward transaction initiated in the current quarter is not considered a Foreign Currency Asset.

   Therefore, PT BBB has Foreign Currency Assets that can be used to offset Foreign Currency Liabilities that will mature within 3 (three) months amounting to US$600,000.00.

3. In the event that Hedging activity has been conducted in the previous reporting quarter, the Hedging receivable is considered a Foreign Currency Asset in the calculation of the negative balance between Foreign Currency Assets and Foreign Currency Liabilities.

   Example:

   On 31st March 2016, PT CCC has fixed assets in a foreign currency totalling US$400,000.00, consisting of demand deposits totalling US$100,000.00 and term deposits totalling US$300,000.00 as well as a receivable in the form of a forward transaction to purchase USD totalling US$200,000.00 with a transaction date of 15th December 2015 and maturity date of 10th May 2016.

When calculating the minimum Hedging Ratio, existing forward transactions from the previous reporting quarter are considered a Foreign Currency Asset when calculating the negative balance between Foreign Currency Assets and Foreign Currency Liabilities.

Therefore, PT CCC has Foreign Currency Assets that can be used to offset Foreign Currency Liabilities with a residual maturity of up to 3 (three) months amounting to US$400,000.00 + US$150,000.00 = US$550,000.00.

D. Fulfilment of the Minimum Liquidity Ratio

To fulfil the minimum Liquidity Ratio, hedging activity undertaken in the current reporting quarter as well as the previous reporting quarter can be considered as Foreign Currency Assets.

Example:

On 31st March 2016, PT DDD has Foreign Currency Assets totalling US$300,000.00, consisting of demand deposits totalling US$100,000.00 and term deposits totalling US$200,000.00. In addition, PT DDD also has receivables in the form of a forward transaction to purchase USD totalling:

– US$100,000.00 with a transaction date of 1st February 2016 and maturity date of 1st May 2016; and
– US$50,000.00 with a transaction date of 21st December 2015 and maturity date of 1st June 2016.

When calculating the Liquidity Ratio, hedging activity in the current reporting quarter and from the previous reporting quarter are considered a Foreign Currency Asset. Therefore, total Foreign Currency Assets of PT

DDD are US$300,000.00 + US$100,000.00 + US$50,000.00 = US$450,000.00.

E. Fulfilment of the Credit Rating

The minimum Credit Rating is equivalent to BB- issued by a Rating Agency as follows:

1. A Credit Rating issued by a domestic Rating Agency is considered equivalent to a Credit Rating issued by an international Rating Agency. A Credit Rating of BB- issued by Standard and Poor's (S&P) and Fitch Ratings is equivalent to a Credit Rating of Ba3 issued by Moody's Investors Service or BB- issued by the Japan Credit Rating Agency (JCR) or BB- issued by Rating and Investment Information Inc (R&I) or idBB- issued by PT Pemeringkat Efek Indonesia (PEFINDO) or BB-(idn) issued by Fitch Rating Indonesia or (Idr)BB- issued by Investment and Credit Rating Agency (ICRA) Indonesia.
2. A newly established Nonbank Corporation is permitted to use the Credit Rating of its parent company for up to 3 (three) calendar years after commercial operations begin, namely:
   a. When services are sold for the first time and/or when income or revenue is received or generated, for a Nonbank Corporation operating in the services sector; or
   b. When goods are sold for the first time and/or when income or revenue is received or generated, for a Nonbank Corporation operating in the trade and manufacturing sectors.
3. In the event that a Nonbank Corporation is established, as referred to in number 2, through a joint venture, the Credit Rating of the largest shareholder is applicable.

Example:

Corporation A is established through a joint venture, namely a domestic company (Corporation B) and an international company (Corporation C), and began commercial operations on 30th July 2015. Corporation B controls 75% of Corporations A's shares, with the remaining 25% controlled by Corporation C. In terms of financing, Corporation A intends to take out a foreign loan originating from an international bank syndicate signed after 1st January 2016. In this case, Corporation A is required to fulfil a minimum Credit Rating of BB- using the Credit Rating of Corporation A or by using the Credit Rating of Corporation B until 30th July 2018.

F. Rating Agencies

1. Rating Agencies recognized by Bank Indonesia are registered on the official List of Recognized Rating Agencies for the Application of Prudential Principles to Manage Nonbank Corporate External Debt as contained within Appendix 1 of this Bank Indonesia Circular Letter.
2. Rating agencies that are not yet authorized by Bank Indonesia may submit a request to Bank Indonesia by including the following documentation:
   a. a license from the relevant authority in Indonesia; or
   b. for international Rating Agencies, a statement that the Rating Agency is approved by the relevant authority in the home country.

II. EXEMPTIONS

1. Nonbank corporations that record their financial statements in US dollars and meet the following criteria are exempt from fulfilling the minimum Hedging Ratio.

a. have a ratio of export revenue to total revenue exceeding 50% (fifty percent) in the previous 1 (one) year; and
b. have a permission from the Ministry of Finance of the Republic of Indonesia to bookkeep in US dollars. Evidence in the form of supporting documentation must be submitted to Bank Indonesia.

2. Exemptions from the mandatory minimum Credit Rating are provided for:
   a. Foreign Currency External Debt in the form of refinancing;
   b. Foreign Currency External Debt used to finance infrastructure projects sourced from:
      1) entirely from bilateral or multilateral international creditors;
      2) syndicated loans with a 50% (fifty percent) or more contribution from bilateral or multilateral international creditors;
   c. Foreign Currency External Debt used to finance central and local government infrastructure projects;
   d. Foreign Currency External Debt that is guaranteed by a bilateral or multilateral international creditor;
   e. Foreign Currency External Debt in the form of trade credit;
   f. Foreign Currency External Debt in the form of other loans.
3. Exemptions from the mandatory minimum Credit Rating for external debt in the form of refinancing referred to in point 2.a are only valid while the total outstanding loan is not increased or if the additional outstanding do not exceeds a specified value, namely:
   a. equivalent to US$2,000,000.00 (two million US dollars); or
   b. 5% (five percent) of the outstanding refinanced loan, in the event that the value of 5% (five percent) is greater than the equivalent of US$2,000,000.00 (two million US dollars).
4. Bilateral or multilateral international creditors referred to in point 2.b and point 2.d consist of:
   a. bilateral institutions such as:

1) governments of other countries;
2) government agencies in other countries (including central bank);
3) autonomous public bodies; or
4) official export credit agencies;

b. multilateral institutions, namely institutions with international membership, established based on an agreement between the members with international agreement status as an international financial organisation.

Examples of bilateral and multilateral international institutions are contained within Appendix II of this Bank Indonesia Circular Letter.

III. CORRESPONDENCE

1. Requests from Nonbank Corporations concerning accounts receivables from Residents in a foreign currency related to strategic infrastructure projects that are considered as a Foreign Currency Asset should be submitted in writing to:

   Bank Indonesia
   Cq. Departemen Pengelolaan dan Kepatuhan Laporan (DPKL)
   Menara Sjafruddin Prawiranegara, Lantai 5
   Jl. M.H. Thamrin No.2
   Jakarta 10350

2. Requests from rating agencies for inclusion on the Bank Indonesia Approved List of Rating Agencies should be submitted in writing to:

   Bank Indonesia

   Cq. Departemen Pengelolaan dan Kepatuhan Laporan (DPKL)

   Menara Sjafruddin Prawiranegara, Lantai 5

   Jl. M.H. Thamrin No.2

   Jakarta 1035

3. Any changes to the correspondence address will be notified through mail and/or other media.

IV. CONCLUDING PROVISIONS

Enforcement of this Bank Indonesia Circular Letter shall commence on 1st January 2015.

For this Regulation to become publicly known, it is hereby ordered that this Regulation be promulgated in the State Gazette of the Republic of Indonesia.

BANK INDONESIA

JUDA AGUNG
HEAD OF ECONOMIC AND
MONETARY POLICY DEPARTMENT

APPENDIX I
BANK INDONESIA CIRCULAR LETTER
NUMBER 16/24/DKEM, DATED 30TH DECEMBER 2014
CONCERNING
THE IMPLEMENTATION OF PRUDENTIAL PRINCIPLES IN MANAGING EXTERNAL DEBT OF NON-BANK CORPORATION

LIST OF RATING AGENCIES APPROVED BY BANK INDONESIA FOR THE APPLICATION OF PRUDENTIAL PRINCIPLES TO MANAGE NONBANK CORPORATE EXTERNAL DEBT

Name of Rating Agency		**BB- Equivalent Rating**
Domestic Rating Agencies	PT Pemeringkat Efek Indonesia (PEFINDO)	idBB-
	Fitch Ratings Indonesia	BB-(idn)
	PT ICRA Indonesia	(Idr)BB-
International Rating Agencies	Moody's Investors Service	Ba3
	Standard & Poor's	BB-
	Fitch Ratings	BB-
	Japan Credit Rating Agency	BB-
	Rating and Investment Information Inc.	BB-

HEAD OF ECONOMIC AND MONETARY POLICY DEPARTMENT

JUDA AGUNG

APPENDIX II
BANK INDONESIA CIRCULAR LETTER
NUMBER 16/24/DKEM, DATED 30TH DECEMBER 2014
CONCERNING
THE IMPLEMENTATION OF PRUDENTIAL PRINCIPLES IN MANAGING EXTERNAL DEBT OF NON-BANK CORPORATION

LIST OF EXAMPLE OF BILATERAL AND MULTILATERAL INSTITUTIONS

1. Bilateral Institutions:

- United States Agency for International Development (USAID) – United States
  Export-Import Bank of the United States (Exim Bank) – United States
- Export Development Canada (EDC) - Canada
- Kreditanstalt für Wiederaufbau (KfW) – Germany
- Euler Hermes Kreditversicherungs AG – Germany
- Netherlands Development Cooperation (NDC) – The Netherlands
- Export Credit Guarantee Department (ECGD) – United Kingdom
- UK Export Finance – United Kingdom
- Agence Francaise de Developpement – France
- Compagnie Française d'Assurance Pour le Commerce Extérieur - France
- Swiss Agency for Development and Cooperation - Switzerland
- Japan Bank for International Cooperation (JBIC) - Japan
- Japan International Cooperation Agency (JICA)- Japan
- Exim Bank Korea – South Korea
- Korea International Cooperation Agency – South Korea
- Department of Foreign Affairs and Trade (Development Cooperation Division), previously AusAID - Australia
- Export Finance and Insurance Corporation (EFIC) – Australia
- Export Credit Office (ECO) – New Zealand

2. Multilateral Institutions

- International Monetary Fund (IMF)
- International Bank for Reconstruction and Development (IBRD)
- International Finance Corporation (IFC)
- Asian Infrastructure Investment Bank (AIIB)
- Asian Development Bank (ADB)
- Islamic Development Bank (IDB)
- African Development Bank (AfDB)
- European Investment Bank (EIB)
- European Bank for Reconstruction and Development (EBRD)
- Inter-American Development Bank Group (IADB)
- The Nordic Investment Bank (NIB)

HEAD OF ECONOMIC AND MONETARY
POLICY DEPARTMENT

JUDA AGUNG